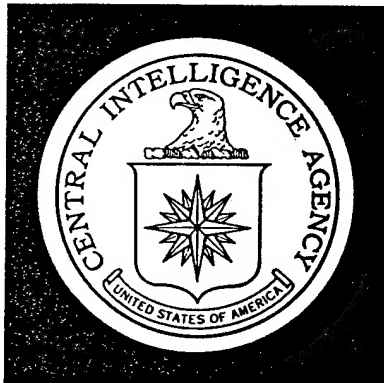


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Economic Limits to Rumanian Independence of the USSR

CIA HISTORICAL REVIEW PROGRAM
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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
January 1969

INTELLIGENCE MEMORANDUM

Economic Limits to Rumanian Independence
of the USSR

Summary

Even after the very large increase in trade with the Free World in the 1960's, Rumania continues to be dependent on other Communist countries for supplies of critical industrial materials and for markets for its industrial products. It remains quite vulnerable, therefore, to economic sanctions that could be imposed by other Warsaw Pact members,* especially the Soviet Union.

Between 1959 and 1968 the Free World's share of Rumania's trade increased from about one-fifth to almost one-half, and the share of the Communist countries declined accordingly. Rumania's trade with other Communist countries actually almost doubled during this period; its trade with the Free World, however, was six times greater in 1968 than in 1959. This rapid acceleration in trade with the Free World was dominated by imports of Western machinery and equipment as Rumania pursued its efforts to modernize its industry by purchasing new technology from outside the Communist sphere.

This shift in Rumanian trade relations, however, had little effect on the dependence of its

* *The Warsaw Pact countries comprise Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Rumania, and the USSR.*

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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steel, machine building, and textile industries on imports from other Communist countries. Nor did it yield other markets -- outside of the Warsaw Pact -- for Rumania's manufactured goods. Currently, between one-third and one-half of Rumania's industrial consumption of iron ore, coking coal, metallurgical coke, and cotton is imported from Warsaw Pact countries. Those countries, in turn, provide the principal export market for Rumania's manufactures, especially machinery, rolled steel, and consumer goods, which are difficult to sell in the Free World because of their low quality.

A complete severance of trade with the Warsaw Pact countries, therefore, could lead to major disruptions in Rumania's economy. It is estimated that industrial production could drop by as much as 20 percent, and affect the jobs of as many as 350,000 workers. Alternative sources for the necessary raw materials could ultimately be found in the Free World. But alternative markets in the Free World probably could be found for only some two-fifths of exports now going to the Warsaw Pact. Thus, in the short run Rumania would experience severe economic dislocations and in the longer run some adverse effects on economic growth. Until these alternatives materialized, Rumania would experience severe economic dislocations.

It is unlikely, however, that the USSR and its Warsaw Pact allies would go so far as to sever trade relations completely with one of its members. Not only political expediency but also the mutual economic interdependence that has been built up within the Warsaw Pact over the past two decades would dictate a more cautious approach. Despite Rumania's schismatic reaction to the Soviet invasion of Czechoslovakia, for example, trade agreements have been renewed for 1969 between Rumania and each of the Warsaw Pact members. Most of these agreements call for an expansion of trade, with planned increases running as high as 14 percent for Bulgaria and 16 percent for Czechoslovakia. The agreement with the USSR calls for an increase in trade of 6 percent, or about the same as the average increase registered in the previous decade.

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Introduction

1. Rumania possesses a resource base that supplies all of its food, most of its energy requirements, and many raw materials required for industrialization. In addition, it has produced a steadily rising surplus of materials for export, permitting large increases in imports of machinery. These factors have contributed substantially to Rumania's rapid industrial growth, which averaged about 11 percent annually during 1961-68.

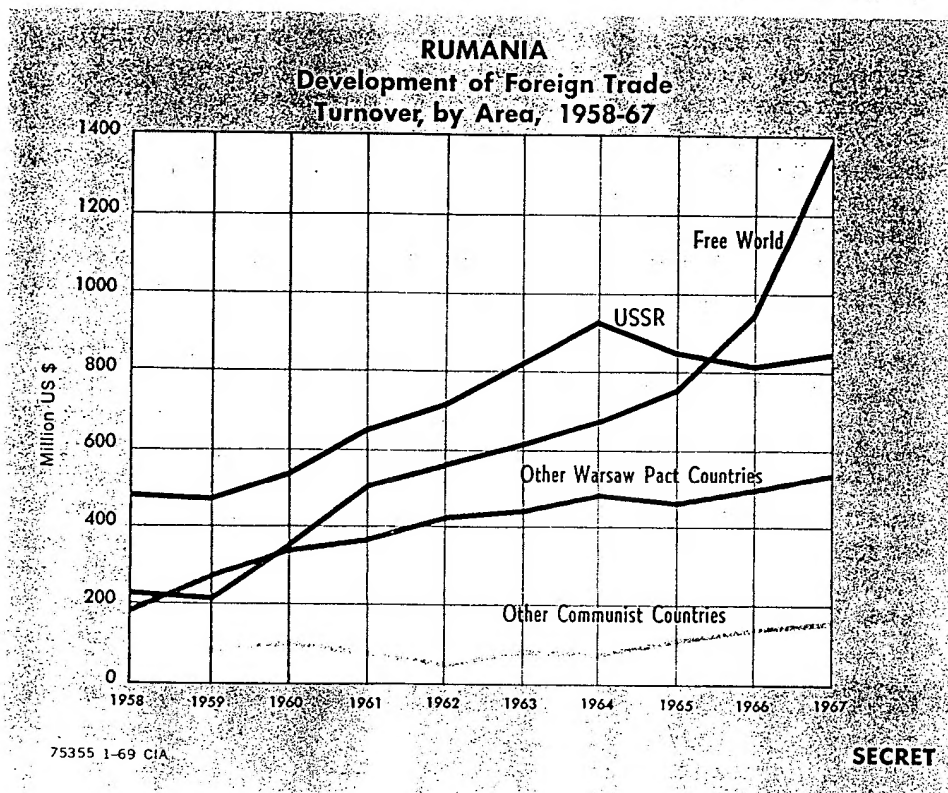
2. Rumania's principal exports consist of foodstuffs, petroleum and timber products, and machinery and equipment. The latter go almost entirely to Communist countries. Because of its small resources of minerals and metals, Rumania must import about one-half of its iron ore and metallurgical coke, about two-fifths of its coking coal, most of its copper and mercury, and all of its tin and phosphate rock. Also imported are all of the cotton and some of the wool and other fibers used as raw materials for the textile industry. Finally, Rumanian industry depends heavily on imports of machinery and equipment, which account for about one-third of Rumanian investment in machinery and equipment.

3. Since 1959, Rumania has sharply changed the direction of its trade away from the Communist countries and toward the Free World (see the chart) in order to acquire machinery and other industrial goods not available in the Communist world. In 1959 some four-fifths of total trade was conducted with Communist countries and a mere one-fifth with the Free World; in 1967 these respective shares were 52 percent and 48 percent. In 1967, about three-fifths of Rumanian imports of machinery and equipment came from the Free World, compared with one-seventh in 1959. Partial reporting for 1968 indicates that the share of Warsaw Pact countries in total Rumanian trade remained the same or increased slightly over the 1967 level. Exports of foodstuffs to the Free World dropped sharply as a result of the drought in 1968.

4. Despite the shift to the Free World, the Warsaw Pact countries provide Rumania with imports of critical raw materials and furnish practically

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the only export market for Rumanian manufactures. Thus the Rumanian economy is quite vulnerable to economic sanctions by these countries although less so than any other Communist country in Eastern Europe except Yugoslavia. The Rumanian regime risked such sanctions when it took the side of Czechoslovakia against the USSR and the other Warsaw Pact countries before and after their armed intervention in Czechoslovakia. The Rumanian leaders were cautious and soon stopped public criticism of the occupation, and their fears of immediate reprisals have quieted. Yet the possibility of sanctions remains an important consideration in Rumanian policy and a major influence on Rumanian relations with the West.

Volume of Trade with the Warsaw Pact Countries

5. Rumania's trade with the Warsaw Pact countries increased 89 percent during 1960-64, declined

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7 percent during 1965-66, and increased 7 percent in 1967. The average annual increase in this trade was 8 percent during 1960-67, compared with an average annual rise of 27 percent in trade with the Free World. In 1967, Rumania's trade with the Warsaw Pact countries amounted to \$1.4 billion, a little less than half of total trade. During 1959-67, Rumania had a cumulative surplus of \$81 million in commodity trade with the USSR and a deficit of \$161 million in such trade with the other Warsaw Pact countries. Of this deficit, \$87 million was with Czechoslovakia and \$73 million with East Germany.

6. The USSR is Rumania's largest trading partner by far among Warsaw Pact countries, followed by Czechoslovakia and East Germany. The relevant data for 1967 are shown in Table 1.

Table 1

Rumania: Trade with Warsaw Pact Countries
1967

	<u>Percent of Total Trade</u>	<u>Percent of Trade with the Warsaw Pact</u>
USSR	28	60
Bulgaria	2	3
Czechoslovakia	6	13
East Germany	6	12
Hungary	2	5
Poland	3	7
<i>Total</i>	47	100

7. Rumania's principal imports from the Warsaw Pact countries are machinery and equipment (an estimated 35 percent of the total in 1966 -- see Table 2) and rolled steel, including pipe (20 percent).^{*} Other imports of significance to the

^{*} *Data on the commodity composition of Rumanian trade, by geographic area, are based on incomplete information. For an explanation of the methodology used in calculating these data, see Table 2. This memorandum was written [footnote continued on p. 6]*

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Rumanian economy -- but small in terms of value -- are iron ore, coking coal, metallurgical coke, cotton, and phosphate rock. The structure of imports from the USSR differs significantly from that from the other Pact members. For example, machinery and equipment accounts for about one-fourth of imports from the USSR and about one-half of imports from other Pact members, but rolled steel (including pipe) accounts for about one-fourth of imports from the USSR and only one-tenth from the others.

8. By 1967 the share of Rumanian imports coming from the Warsaw Pact countries had dropped to 44 percent, compared with 74 percent in 1959 and 53 percent in 1966. In 1966, Rumania received an estimated 25 percent of its imports of machinery and equipment from the USSR and an estimated 30 percent from the other Pact members (see Table 3). With the sharp rise in imports of machinery and equipment from the Free World in 1967, the share of Communist countries in these imports dropped to roughly two-fifths. In 1966 the Warsaw Pact countries provided about 85 percent of Rumanian imports of iron ore and of coking coal, virtually all of imports of metallurgical coke, nearly 80 percent of imports of rolled steel (including pipes), all or nearly all of imports of pig iron and ferroalloys, and about 40 percent of imports of cotton.

9. The most important Rumanian exports to the Warsaw Pact countries are machinery and equipment (about 25 percent of the total in 1966) and food-stuffs, manufactured consumer goods, and rolled steel, including pipe (each about 15 percent of the total in 1966). Other important exports are timber products, petroleum products, and chemicals. Machinery and equipment made up 15 percent of exports to the USSR and nearly 45 percent of exports to the other Warsaw Pact members in 1966; manufactured consumer goods accounted for about 25 percent of exports to the USSR and for less than 5 percent of exports to other Pact members. Furniture and clothing make up about two-thirds of Rumanian exports of manufactured consumer goods.

when data on the geographic breakdown of trade, by commodity, were available only through 1966. Data received recently indicate that in 1967 there were no substantial changes in the commodity composition of Rumanian trade with the Communist countries.

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10. The Communist countries provide the main foreign market for Rumanian manufactures, which are difficult to sell in the Free World because of their low quality. Thus, in 1966, all Communist countries (excluding Yugoslavia) received more than four-fifths of total Rumanian exports of machinery and equipment, rolled steel (including pipe), furniture, and clothing. Communist countries also took more than one-half of Rumanian exports of chemicals, rubber, and construction materials and somewhat less than two-fifths of exports of petroleum products, timber products, and foodstuffs (see Table 4). Of total Rumanian exports, 50 percent went to Warsaw Pact countries in 1967, compared with 71 percent in 1959 and 56 percent in 1966.

Economic Importance of Rumania's Trade
with the Warsaw Pact

11. At present Rumania is heavily dependent on the Warsaw Pact countries for supplies of several important raw materials. The industries most dependent on these imports are steel, machine building, and textiles. As shown in Table 5, Rumania relied on Warsaw Pact countries for more than two-fifths of its apparent consumption of iron ore in 1966, about one-third of its coking coal, about one-half of its metallurgical coke, two-fifths of its cotton, and more than nine-tenths of its phosphate rock.* The Pact countries supplied about 35 percent of Rumania's consumption of rolled steel and more than 5 percent of the pipe. The USSR supplied all known imports of pig iron, which accounted for 15 percent of consumption.

12. Rumania's investment program is moderately dependent on imports from the Warsaw Pact countries, which supplied about 17 percent of invested machinery and equipment in 1966 and roughly 15 percent in 1967. An estimated 23 percent of industrial investment in machinery and equipment consisted of such imports in 1966. Furthermore, about

* *It is assumed that all or nearly all of the imports of these items come from Warsaw Pact countries, although calculations could be made only for the USSR and for the other Communist countries as a group.*

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two-fifths of domestic production of machinery and equipment is dependent on supplies of steel made possible by imports of raw materials and rolled steel from Warsaw Pact countries. Thus, roughly two-fifths of Rumanian investment in machinery and equipment is directly or indirectly dependent on imports from these countries. In addition, much of the imported metalworking machinery required for machinery production comes from Warsaw Pact countries.

13. Warsaw Pact countries provide an export market for a sizable share of Rumania's total production of several kinds of products (see Table 6). In 1966, close to one-fourth of the output of rolled steel, one-sixth of the machinery and equipment, petroleum products, and broad-leaved sawn wood, and a large but unknown share of the furniture and clothing went to the Warsaw Pact countries as a group. Total exports to these countries, however, absorbed only about 4 percent of Rumanian gross national product.

Impact of a Cutoff of Trade with the Warsaw Pact

14. If the Warsaw Pact countries were to cut off trade with Rumania, the most immediate effect would be a substantial drop in output of machinery, steel, clothing, and furniture because of the loss of the substantial export outlets for these products that Pact countries provided. In the first few months, industrial production might fall as much as 10 percent, and about 150,000 to 225,000 industrial workers would become surplus. A further decline in output and a rise in unemployment would soon come about because of raw material shortages in industries now heavily dependent on imports from Warsaw Pact countries. Total industrial production might fall another 5 to 10 percent, and the number of unemployed might increase to roughly 275,000 to 350,000, or 15 to 20 percent of the industrial labor force. Three-fifths of those employed in the affected industries work in the city of Bucharest and the old regions of Brasov, Ploesti, and Banat. In the short run, the output of crude steel might drop by about one-third, finished steel by about two-fifths, machinery by one-sixth, and cotton textiles by about two-fifths. As soon as inventories of phosphate rock from the USSR were exhausted, the production of phosphate fertilizers would nearly cease.

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15. The cessation of imports of capital goods from Warsaw Pact countries would have an immediate impact on Rumania's investment program. Work on several major projects would have to be temporarily halted, and allocations of machinery and equipment to investment would be slowed as a result of the drop in domestic production of machinery and equipment.

16. To counter these adverse effects of a trade cutoff with Communist countries, Rumania would, of course, quickly seek alternative sources of raw materials and alternative export markets. In the first instance, substantial immediate short-term credits would be needed to finance the most urgent imports. Although the Rumanians would be likely to have considerable success ultimately, such a major readjustment of trade would be slow at best. So drastic an action as a trade cutoff, however, seems highly unlikely. More probable are delaying tactics or other frustrating actions that would increase the difficulties of trade relations with the Warsaw Pact countries.

Prospects for Redirection of Trade

17. Any serious disruption of trade with the Warsaw Pact countries would impel Rumania to accelerate the redirection of its trade toward Free World countries that began in 1960. As soon as financing had been arranged, Rumania could find alternative suppliers for the industrial raw materials now supplied by Warsaw Pact countries. Iron ore, coking coal, rolled steel, cotton, and phosphate are readily available in the Free World at a price. A full range of high-quality machinery and equipment also could easily be obtained. The problem both in the short run and in the long run is that of financing these imports. The Rumanians have had considerable success in expanding their exports to the Free World. Within a year or two they probably would be able to find Free World markets for the petroleum and timber products, foodstuffs, and certain chemicals now going to the Warsaw Pact. They might also be able to find outlets for additional machinery and equipment, steel, furniture, and clothing, especially if they were willing to cut prices sufficiently. The completion of the Galati Steel Combine, perhaps in 1970, will permit the Rumanians to export.

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a large volume of finished products acceptable in the Free World, such as hot and cold rolled sheets and strip and galvanized sheets and strip.

18. Despite these favorable factors, however, Rumania probably could not find enough outlets for its exports to pay for all of the required additions to imports from the Free World. The resulting deficit would have to be financed by drawing on reserves of gold and hard currency and by obtaining new credits and refinancing debt payments coming due. On both counts Rumania is fortunate to have a sizable gold reserve for such a small country. Present holdings of gold are estimated at \$140 million; annual domestic production amounts to some \$25 million. The existence of these reserves would be a considerable asset in Rumania's attempts to get additional credits from the West. On the other hand, Rumania already owes a substantial debt to the West as a result of the drawings on past credits. At the end of 1968, this debt amounted to an estimated \$0.7 billion and will continue to rise with the increase in imports from the Free World already planned. Any disruption in trade with the Warsaw Pact countries would further complicate Rumania's balance-of-payments problem with the Free World. In the short run, Western countries would have to be willing to extend credits and refinance existing debts, willy-nilly, until Rumania could boost its exports sufficiently to pay for its imports.

Outlook for Trade with the Warsaw Pact

19. The completion of trade agreements for 1969 between Rumania and each of the members of the Warsaw Pact suggests that economic sanctions have been ruled out -- at least temporarily -- as a weapon against Rumania's unorthodox behavior. The continuance of normal trade relations implied by these agreements, however, does not preclude the use of trade negotiations as a means of imposing economic sanctions in the future.

20. It is highly unlikely that the USSR would actually sever its trade relations with Rumania. The USSR doubtless prefers to keep the Rumanians somewhat dependent economically and certainly does not wish to push them further toward the West.

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Economic sanctions imposed on Rumania would likely involve changes favorable to the USSR in the terms and composition of trade. In its trade negotiations not only with Rumania but also with other Warsaw Pact members, for example, the USSR has been trying for some years to obtain more industrial raw materials and agricultural products, which those countries are able to sell in the West for hard currency. At the same time, Moscow has tried to reduce purchases of machinery, which other Warsaw Pact countries cannot market readily in the West because of its inferior quality. If the USSR were to insist on such changes in its trade with Rumania, the consequences to Rumania's balance of payments and ultimately to its economic growth would be quite severe.

21. The agreements signed with the Warsaw Pact members indicate that Rumania's trade with these countries will continue to increase in 1969. Trade with the USSR is planned to increase by 6 percent, compared with an estimated average annual growth rate of 7 percent during 1960-68. Trade with Hungary is planned to increase 12 percent; trade with Bulgaria, 14 percent; and trade with Czechoslovakia, 16 percent. Trade with East Germany and Poland is to increase by an unspecified amount.

22. The share of the Warsaw Pact countries in total Rumanian trade probably will decline no further for a while and may even increase somewhat. The growth of Rumanian trade with the Free World is likely to slow down. The Rumanians promoted trade with the Free World in the first part of the current Five Year Plan (1966-70), mainly to assure deliveries of machinery and equipment needed to fulfill the construction plan for the period. Now that a large part of the required machinery has been delivered, the Rumanians can reduce the growth of trade with the Free World without adversely affecting the investment program.

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Rumania: Commodity Structure of Trade with the Communist Countries a/
1966

	Imports from Communist Countries b/		Exports to Communist Countries b/		Percent
	Total	USSR	Total	USSR	
Machinery and equipment c/	36	27	26	14	43
Fuels d/	6	5	9	9	9
Iron ore	3	6	0	0	0
Rolled steel e/	20	27	14	17	10
Other minerals and metals	7	11	2	3	Negl.
Chemicals, fertilizer, and rubber	4	4	5	5	6
Cotton	3	6	0	0	0
Timber and timber products f/	N.A.	N.A.	8	9	6
Foodstuffs	1	1	16	16	15
Manufactured consumer goods	10	4	15	24	4
Other and unspecified g/	10	9	5	3	7
Total	100	100	100	100	100

a. The percentages shown are for the most part approximate. In this memorandum the commodity composition of Rumanian trade with the Warsaw Pact countries is assumed to be the same as for Rumanian trade with all Communist countries (excluding Yugoslavia). Calculations on the commodity composition, for the most part, can be made only for the USSR and for other Communist countries as a group.

The above percentages were calculated from Rumanian value data on the commodity breakdown of total trade and on most exports to and some imports from Communist countries, by major category; from reporting of the USSR on commodity trade with Rumania; and from reporting of Free World countries

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Table 2
Rumania: Commodity Structure of Trade with the Communist Countries a/
1966
(Continued)

- (including Yugoslavia) on commodity trade with Rumania. The value of total Rumanian imports of iron ore, coking coal, metallurgical coke, and rolled steel and of total Rumanian exports of rolled steel were estimated using Rumanian data on physical quantities and data of Free World countries and the USSR on physical quantities and values. In some cases -- especially Rumanian exports of foodstuffs -- the values estimated for trade with the Free World differ greatly from the value shown for the same commodity groups in data compiled by the US Department of Commerce. This discrepancy is due largely to the incomplete reporting of Free World countries. In 1966, Rumanian exports to the Free World as compiled by the Commerce Department showed a residual of \$67 million and imports showed a residual of \$17 million.
- b. Excluding Yugoslavia.
 - c. Excluding estimated imports of military hardware.
 - d. Imports consist primarily of coking coal and metallurgical coke. Exports are made up largely of petroleum products.
 - e. Including pipe.
 - f. Excluding finished products.
 - g. Including estimated imports of military hardware.

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Table 3
Rumania: Distribution of Imports, by Commodity and Area a/
1966

Distribution of Commodities, by Area					Percent
Distribution of Total Imports, by Commodity					
	USSR	Other Communist Countries b/	Free World c/	Total	
Machinery and equipment d/	23	30	47	100	38
Coking coal	49	37	14	100	1
Metallurgical coke	53	45	2	100	2
Iron ore	86	0	14	100	2
Rolled steel e/	68	10	22	100	15
Other minerals and metals	46	2	52	100	8
Chemicals, fertilizer, and rubber	19	11	70	100	7
Cotton	39	0	61	100	5
Manufactured consumer goods	19	57	24	100	7
Other and unspecified f/	24	23	53	100	15
Total	32	23	45	100	100

a. The percentages shown are for the most part approximate. For a discussion of the methodology involved, see Table 2.

b. Excluding Yugoslavia.

c. Including Yugoslavia.

d. Excluding estimates of military hardware.

e. Including pipe.

f. Including estimates of military hardware.

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Table 4

Rumania: Distribution of Exports, by Commodity and Area a/
1966

	Distribution of Commodities, by Area			Percent
	USSR	Other Communist Countries b/	Free World c/	
Machinery and equipment	28	63	9	100
Petroleum products	36		64	100
Rolled steel d/	60	31	9	100
Chemicals, fertilizer, and rubber	30	26	44	100
Timber and timber products e/	24	12	64	100
Foodstuffs	23	16	61	100
Furniture	87	7	6	100
Clothing	88	5	7	100
Other manufactured consumer goods	39	35	26	100
Other and unspecified	19	35	46	100
Total	35	26	39	100
				Distribution of Total Exports, by Commodity
				17
				10
				9
				6
				13
				24
				4
				3
				4
				10
				100

a. The percentages shown are for the most part approximate. For a discussion of the methodology involved, see Table 2.

b. Excluding Yugoslavia.

c. Including Yugoslavia.

d. Including pipe.

e. Excluding finished products.

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Table 5
Rumania: Imports of Selected Commodities as a Share of Apparent Consumption a/
1966

	Imports as a Percent of Apparent Consumption		
	Total	USSR	Other Communist Countries <u>b/</u> Free World <u>c/</u>
Investment in machinery and equipment	32	7	10 15
Coking coal	39	19	14 6
Metallurgical coke	50	27	22 1
Iron ore	52	44	0 8
Pig iron	15	15	0 0
Rolled steel <u>d/</u>	40	27	4 9
Phosphate rock	100	93	0 7
Cotton	100	39	0 61

a. The percentages shown are for the most part approximate. For a discussion of the methodology involved, see Table 2.

b. Excluding Yugoslavia.

c. Including Yugoslavia.

d. Including pipe.

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Table 6
Rumania: Exports of Selected Commodities as a Share of Production a/
1966

Exports as a Percent of Production			
Total	USSR	Other Communist Countries b/	Free World c/
Machinery and equipment d/	17	5	1
Petroleum products	49	18	31
Rolled steel e/	27	16	3
Chemicals, fertilizer, and rubber d/	18	5	8
Coniferous sawn wood	52	0	51
Broad-leaved sawn wood	31	13	15
Foodstuffs f/	12	3	7

- a. The percentages shown are for the most part approximate. For a discussion of the methodology involved, see Table 2.
- b. Excluding Yugoslavia.
- c. Including Yugoslavia.
- d. Estimated as share of gross output of the industry.
- e. Including pipe.
- f. Estimated as share of net agricultural output -- that is, as gross agricultural output less feed, seed, and waste.

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